
Economics 365/Public Policy 470
Advanced Health Economics
Winter, 2005

Room: Harris School, Room 140B
Time: Tue & Fri 3.00-4.20 pm

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Most developed economies spend substantial fractions of their incomes on improving health through investments in health enhancing activities, transactions in health care markets, and other means. In particular, in the last half century there has been substantial growth in the amount of income devoted to health care expenditures. Also, in developed and developing countries alike the public sector is heavily involved in the both the financing and production of health care; about two thirds of health expenditures on average are made by the public sector. This course will discuss economic aspects of health and health care markets. The discussion will be focused on, but not limited to, health care markets in the United States. Particular attention will be paid to the effects and role of public sector interventions in health care markets including the subsidization of health care demand and the regulation of health care production.

Grading:

There is a paper required which will make up 50% of your grade and the remaining 50% will be made up of problem sets and performance in class discussions. The paper is due at the start of Spring Quarter, 2005 but presentations will be given in class on progress to date. Please stop by during office hours to discuss the topic. This will help me advise you on a good topic for the paper that will fit into the material to be discussed in class and that is novel in relation to the existing literature and can therefore provide a spring-board into a dissertation topic. There is a required progress report on the paper at the end of the quarter. **You will have to start the paper very soon to be ready in time and to get the most out of the class, you will not learn much by scrambling at the end of the quarter.**

You are required to participate in all classes as well as suggested to attend the Health Economics Workshop (on Thursdays 3.30-5pm in Harris School) if you are taking the course for a grade. The Applications in Economic Workshop (on Mondays 3.30-5.00pm in Econ Department) often also has many health related papers presented. Everyone taking the course gets assigned a regular grade and if you take the course for pass/fail you will get a pass if you get assigned a grade of C or higher.

General Readings :

Handbook in Health Economics, edited by J. Newhouse and A. Culyer, Springer-Verlag, North-Holland, 2000.

Health Economics, P. Zweifel and F. Breyer, Oxford University Press, 1997.

Health Economics, C. Phelps, Norton, 2001.

Course & Topic Outline;

The topic outline below is preliminary and if students want to learn about a particular area related to their research, we may substitute some of the topics and lectures. Many readings are readily available on the web, e.g. at www.jstor.com for journal articles older than 5 years and at www.nber.org for working papers from The National Bureau of Economic Research (NBER).

1) Organization & Course Outline

2) Basic Facts of The US Health Care System & Background Issues

3) Health Human Capital and Macroeconomic Performance

Lecture Notes in Class

4) Health Human Capital

Grossman, M., 'The Health Human Capital Model', Chapter in *Handbook of Health Economics*.

Ehrlich, I., and H. Chuma, (1990), "A Model of The Demand for Longevity and the Value of Life Extension," *Journal of Political Economy*, v. 98, 761-782.

Grossman, M. (1972), "On the Concept of Health Capital and The Demand for Health," *Journal of Political Economy*, v. 80, 223-50.

Becker, G., and C., Mulligan, (1997), 'The Endogenous Determination of Time Preference', *The Quarterly Journal of Economics*, p 729-58.

Becker, G., and K., Murphy (1988), 'A Theory of Rational Addiction', *Journal of Political Economy*, p 675-700.

Dow, W., T. Philipson, and X. Sala-I-Martin, (1999), 'Longevity Complementarities Under Competing Risks.', *American Economic Review*, 89.5, December, (1999): p 1357-1372.

5) Value of Life

Arthur, W. (1981), 'The Economics of Risks to Life', *American Economic Review*, v 71, 54-64.

Rosen, S., (1988), 'The Value of Changes in Life Expectancy,' *Journal of Risk and Uncertainty*, 1, 285-304.

Viscusi, W. Kip (1993). The value of risks to life and health. *Journal of Economic Literature*, V31, Issue 4 (Dec., 1993), 1912-46.

Viscusi, K., and W. Evans, (1990) 'Utility Functions That Depend on Health Status: Estimates and Economic Implications', *American Economic Review*, v 80, 3, 353-375.

Valuation of Recent US Growth in Longevity

Murphy, Kevin M. and Robert Topel (1999). "The economic value of medical research." Unpublished Manuscript, University of Chicago, September 1999.

International Valuation of Longevity

Usher, Dan (1973). "An imputation of the measure of economic growth for changes in life expectancy" in Milton Moss (ed.). *The Measurement of Economic and Social Performance*, Studies in Income and Wealth, Volume 38. Conference on Research in Income and Wealth. New York, National Bureau of Economic Research and Columbia University Press, 1973, 193-225.

Becker, G., Philipson, T., and R., Soares, "The Rise In Longevity and World Inequality", *American Economic Review*, March 2005.

6) The Production of Health Care Services

Non-Profit Firms (NFPs) and Health Care Production

Agency Explanations of NFPs

Hansmann, Henry B. (1980). "The Role of Nonprofit Enterprise.", *Yale Law Review*, 89: 835-901.

Glaeser, E., and A., Shleifer, (2001), 'Nonprofit Entrepreneurs', forthcoming, *Journal of Public Economics*.

Philipson, T. (2000). "Asymmetric Information and The Non-Profit Sector: Does Its Output Sell at a Premium?", *The Changing Hospital Industry*. Edited by D. Cutler, Chicago: University of Chicago Press.

Altruism and NFPs:

Rose-Ackerman, S. (1996), "Altruism, Non-Profits, and Economic Theory." *Journal of Economic Literature* 34(2): 701-29.

Lakdawalla, D., and T., Philipson (1998), "Industry Performance and The Non-Profit Sector", *Journal of Public Economics*, 2006..

Newhouse, J. (1970). "Towards a Theory Of Non-Profit Institutions: An Economic Model of a Hospital.", *American Economic Review*, 60(1): 64-74.

Dranove, D. (1988). "Pricing by Non-Profit Institutions." *Journal of Health Economics* 7(1): 47-57.

Sloan, F., 'Non-Profit Hospitals', *Handbook of Health Economics*, edited by J. Newhouse and A. Culyer, Springer-Verlag, North-Holland, 2000.

Philipson, T., and R. Posner, (2000), "Anti-Trust in The Non-Profit Sector", Working Paper, Chicago.

Agency - & Third-Party Financing Issues in Health Care Production

Production of Health Care Financed by a Third Party

Lecture Notes

Ellis, R., and T., McGuire, (1986), 'Provider Behavior under Prospective Payment', *Journal of Health Economics*, 129-151.

Supply-Induced Demand

Lecture Notes

Fuchs, V., (1978), 'The Supply of Surgeons and The Demand for Surgical Operations', *Journal of Human Resources*, v13, Supplement, 35-66.

Cromwell, J., and J., Mitchell, (1986), 'Physician Induced Demand for Surgery', *Journal of Health Economics*, 293-313.

Hay, J., and M., Leahy, (1982), 'Physician Induced Demand: An Empirical Examination of the Consumer Information Gap', *Journal of Health Economics*, 231-244.

Regional Variation in Health Care Services

Wennberg, J., and A., Gittlelsohn, (1973), 'Small Area Variations in Health Care Delivery', *Science*, v 182, 1102-1108.

7) Medical Malpractice and Product Liability

Danzon, P, (1999), 'Medical Malpractice', in *Handbook of Health Economics*, edited by J. Newhouse and A. Culyer, Springer-Verlag, North-Holland, 2000.

Kaplow, L., and S., Shavell, (2001), 'Law and Economics', in *Handbook of Public Economics*, edited by A. Auerbach and M. Feldstein, North-Holland. (See especially section on Tort Law.)

Philipson, T., and E., Sun (2006), "Intellectual Property and Product Liability", WP, U of Chicago.

8) Demand and Supply of Health Insurance

The Demand for Insurance

Lecture Notes

Cutler, D., and R., Zeckhauser, (2000), "The Anatomy of Health Insurance", in *Handbook of Health Economics*, edited by J. Newhouse and A. Culyer, Springer-Verlag, North-Holland.

Pauly, M., (1968), 'The Economics of Moral Hazard' *American Economic Review*, v 58, 531-37.

Erllich, I., and G., Becker, (1972), 'Market Insurance, Self-Insurance, and Self-Protection', *Journal of Political Economy*, v 80, 623-48.

Zeckhauser, R., (1971), 'Medical Insurance: A Case Study of The Tradeoff Between Risk-Spreading and Appropriate Incentives', *Journal of Economic Theory*, 10-26.

The RAND Health Insurance Experiment

Newhouse, J., (1994), *Free for All?: The RAND Health Insurance Experiment*, Harvard University Press.

Manning et al, (1987), 'Health Insurance and The Demand for Medical Care: Evidence from a Randomized Experiment', *American Economic Review*, v 77, 251-77.

The Supply Of Insurance

Rothschild, M., and J. Stiglitz, (1976), 'Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information', *Quarterly Journal of Economics*, v. 90(4), November, 630-49

Cawley, J., and T. Philipson, (1999), 'An Empirical Examination of Information Barriers to Trade in Insurance', *American Economic Review*, 89.4, September, p 827-48.

9) R&D in New Medical Products

Tirole, J., *The Theory of Industrial Organization*, Chapters 4 & 10

Loury, G., (1979), 'Market Structure and Innovation', *The Quarterly Journal of Economics*, v 93, 395-410.

Dasgupta, P., and J. Stiglitz (1980), 'Uncertainty, Industrial Structure and The Speed of R&D', *The Bell Journal of Economics*, 1-28.

Spence, M., (1984), 'Cost Reduction, Competition, and Industry Performance', *Econometrica*, v 52, 101-121.

Gilbert, Richard and Carl Shapiro, "Optimal Patent Length and Breadth," *RAND Journal of Economics* 21 (1990), 106-112.

Klemperer, Paul, "How Broad Should the Scope of Patent Protection Be?" *RAND Journal of Economics* 21 (1990), 113-130.

Scotchmer, Suzanne, "Protection of Early Innovators: Should Second-Generation Products Be Patentable?" *RAND Journal of Economics* 27 (1996), 322-331.

Wright, Brian, "The Economics of Invention Incentives: Patents, Prizes, and Research Contracts," *American Economic Review* 73 (1983)

Green, J., and S., Scotchmer, (1995), 'On the Division of Profit in Sequential Innovation', *RAND Journal of Economics*, v 26, Issue 1, Spring, 20-33.

R&D for Goods With External Effects

Kremer, M., (2000), "Creating markets for New Vaccines, Part I: Rationale", NBER Working Paper No 7716.

T., Philipson, B., Jena and S., Mechoulan, (2005), "Intellectual Property and R&D for Goods with External Effects", Working Paper, Chicago.

10) Pharmaceutical Markets and Its Regulation

- Grabowski and Vernon, (1994), Returns to R&D on New Drug Introductions in the 1980s', *Journal of Health Economics*, v 13, 383-406.
- Peltzman, S., (1973), 'An Evaluation of Consumer Protection Legislation: The 1962 Drug Amendments,' *Journal of Political Economy*, v 81, 1049-1091.
- Sherer, F.M., (2000), "The Pharmaceuticals Industry", *The Handbook of Health Economics*, edited by J. Newhouse and A. Culyer, Springer-Verlag, North-Holland.
- Dranove, D., and D., Meltzer, (1994), 'Do Important Drugs Reach The Market Sooner?' *The RAND Journal of Economics*, v 25, No 3, 402-423.
- T. Philipson, and B., Jena (2006), "Technology Adoption Criteria and Appropriation of Innovative Returns" , Working Paper, U of Chicago.
- Berndt et al (2005), "Assessing the Safety and Efficacy of The FDA: An Evaluation of The Prescription Drug User Fee Acts" , NBER Working Paper.

11) Aging & Health Care Markets

- Martin, L., and S., Preston, (1994), *Demography of Aging*, Washington, D.C.: National Academy Press, 1994.

Impact of Aging on General Economy

- Schulz, J., (1995), *The Economics of Aging*, 6th edition, Westport, Conn. and London: Auburn House.

Impact of Aging on Health Care Markets

- Norton, E., (1999), 'Long Term Care', chapter in *Handbook of Health Economics*, edited by J. Newhouse and A. Culyer, Springer-Verlag, North-Holland, 2000.
- Lakdawalla, D., and T., Philipson.(2002), "The Rise in Old Age Longevity and the Market for Long Term Care", *American Economic Review*, v 92, No 1 , March , pp 295-306.
- Cutler, D., 'Aging and Health Care Spending: Standard and Non-Standard Effects', NBER Working Paper.

12) Public Insurance of Health Care and Life

Ehrlich, Isaac and Francis T. Lui. "Social Security, the Family, and Economic Growth." *Economic Inquiry*. 36, July 1998: 390-409.

Ehrlich, Isaac and Jian-Guo Zhong. " Social Security and the Real Economy: An Inquiry into Some Neglected Issues." *American Economic Review*. 88(2), May 1998: 151-57.

Philipson, T., and G., Becker, (1998), 'Old-Age Longevity and Mortality Contingent Claims', *Journal of Political Economy*, v 106 (3), 550-74.

13) Public Health

Philipson, T., 'Economic Epidemiology', *Handbook of Health Economics*, edited by J. Newhouse and A. Culyer, Springer-Verlag, North-Holland, 2000.

Geoffard, P-Y., and T. Philipson. "Disease Eradication: Private vs Public Vaccination." *American Economic Review* 87.1 (1997): 222-230.

14) Evaluation of Health Care Technology

Cost-Effectiveness Analysis of New Technology

Lecture Notes

Garber, A., (2000), 'Cost-Benefit Analysis', chapter in *Handbook of Health Economics*, edited by J. Newhouse and A. Culyer, Springer-Verlag, North-Holland, 2000.

Meltzer, D., (1997), 'Accounting for Future Costs in Cost-Effectiveness Analysis', *Journal of Health Economics*.

The Design and Analysis of Randomized Clinical Trials (RCTs)

Manski, C., (1997), *Identification in The Social Sciences*, Harvard University Press.

Philipson, T., and L. Hedges. "Subject Evaluation in Social Experiments." *Econometrica* 66.2 (1998): 381-409.

Philipson, T., and J. DeSimone. "Experiments and Subject Sampling." *Biometrika* 84.3 (1997): 618-632

Last Lectures: Paper Presentations